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Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-08
EA-10 FRB-03 INR-10 IO-13 NEA-10 NSAE-00 USIA-06
OPIC-03 SP-02 TRSE-00 LAB-04 SIL-01 AGRE-00
OMB-01 SS-15 /105 W
----------006323 071738Z /43
O R 071610Z MAR 78
FM AMEMBASSY COPENHAGEN
TO AMEMBASSY PARIS IMMEDIATE
INFO EC COLLECTIVE
SECSTATE WASHDC 6106

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USOECD

USEEC ALSO FOR EMBASSY

E.O. 11652: N/A
TAGS: EGEN, DA
SUBJECT: ECONOMIC AND DEVELOPMENT (EDRC) REVIEW OF DENMARK MARCH 9 (II)

REF: A. COPENHAGEN 1442, B. COPENHAGEN 1513, C. PARIS 7959

1. SINCE TRANSMISSION OF REF B, WE HAVE RECEIVED AND EXAMINED DRAFT SURVEY BY SECRETARIAT EDR (78) 5 AS WELL AS REF C. WE BELIEVE THAT OUR PREVIOUS COMMENTS REMAIN VALID AND GENERALLY SUFFICIENT BUT OFFER THE FOLLOWING ADDITIONAL COMMENTS WITH REGARD TO SPECIFIC POINTS WHICH MISSION WANTS TO PURSUE PER REF C, PARA 9.

2. IT IS UNDOUBTEDLY TRUE THAT VERY LIBERAL NATURE OF DANISH UN-EMPLOYMENT INSURANCE PROGRAM HAS BOTH ATTRACTED NEW LABOR INFLOWS, PARTICULARLY WOMEN, AND KEPT WORKERS IN LABOR FORCE BEYOND NORMAL RATES. WHILE THE FIRST PROBLEM WOULD BE
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DIFFICULT TO ATTACK WITHOUT INTRODUCTING DISCRIMINATORY ASPECT IN INSURANCE PROGRAM, GROVERNMENT IS AWARE OF AND ACTIVELY TRYING TO SOLVE LATTER PRLBLEM BY TRASITIONAL RETIREMENT MEASURES. HOWEVER, INTENT OF TYING THESE MEASURES TO UNEMPLOYMENT PROGRAM RATHER THAN TO SOCIAL SECURITY SYSTEM HAS CREATED MANAGEMENT OPPOSITION.

3. BOTH PRIOR AND PRESENT CAMUFLAGED WAGE SUBSIDIES (COMPENSATION

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FOR WAGE ESCALATION IN DIFFERENT FORMS) MAY BE CLASSIFIED AS MEASURES TO MAINTAIN EMPLOYMENT LEVELS IN DECLINING INDUSTRY, AND RECENT SOFTENING OF MANAGEMENT'S SICK PAY OBLIGATIONS SERVED THAT PRUPOSE TOO. WHILE DIRECT INDUSTRY SUBSIDIES WOULD GO AGAINST GRAIN OF DANISH TRADITION, PRESENT MEDIUM-TERM ECONOMIC PROGRAM CONTAINS OFFERS OF SUPPORT FOR SELECTED ACTIVITIES, ESPECIALLY OF AN ENERGY SAVING NATURE, BUT ALSO SPECIFICALLY FOR EMPLOYMENT OF YOUTH GROUPS. RECRUITMENT OF YOUNG WORKERS, HOWEVER, ACCORDING TO MANAGEMENT ALLEGATIONS, IS HANDICAPPED BY RECENT INTRODUCTION OF MINIMUM PAY RATES.

4. AGAINST THE BACKGROUND OF THE RELATIVE RIGIDITY IN DANISH SOCIET, RECENT YEARS' EXPANSION OF INDUSTRY OUTSIDE TRADITIONAL INDUSTRIAL AREAS MIGHT INDICATE CAPABILITY FOR ADJUSTMENT. LIMITED UTILIZATION OF AVAILABLE REGIONAL DEVELOPMENT FUNDS AND OUTSPOKEN INDUSTRY OPPOSITION TO DIRECT INVESTMENT SUBSIDIES, THOUGH PROBABLY POLITICALLY-INSPIRED, MAY ALSO INDICATE THAT INDUSTRIAL ADJUSTMENT PROCESS IS NOT HAMPERED BY LACK OF OFFICIAL SUPPORT.

5. AS PREVIOUSLY INDICATED, WE VIEW WAGE DEVELOPMENT PROSPECTS BEYOND 1978 SERIOUSLY AND AGREE TO SOME EXTENT WITH SECRETARIAT'S ANALYSIS THAT WAGE TENSIONS MIGHT HAVE DEVELOPED, I.E., BETWEEN SKILLED AND UNSKILLED. WAGE DISPERSION, HOWEVER, HAS HISTORICALLY BEEN GREATER BETWEEN INDUSTRIES THAT BETWEEN THESE WORKER CATEGORIES, WHERE BY ARE NOW DOWN TO ABOUT 10 PERCENT. TYPICALLY, IN THE CURRENT SITUATION, DISPERSION HAS BEEN REDUCED BY SLOWER
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WAGE DEVELOPMENTS (FOR BOTH SKILLED AND UNSKILLED) IN SUCH HIGH-RATE INDUSTRIES AS CONSTRUCTIONS. ALSO, IN THE DOMINANT MACHINER INDUSTRY, WHERE A VERY OPEN CONTRACT SYSTEM PROVIDES AMPLE OPPORTUNITY FOR INDIVIDUAL WAGE ADJUSTMENT, WAGE DRIFT HAS PRESENTLY BEEN ALMOST STOPPED. THESE FEATURES ARE ENCOURAGING BECAUSE THEY INDICATE THAT AN EGALITARIAN APPROACH IN THE FORTHCOMING BARGAINING SESSION COULD BE ACCEPTED ALSO BY HIGH-RATE UNION GROUPS DESPITE RECENT LOSSES OF RELATIVE ADVANTAGES.

6. WITH REGARD TO THE WAGE/PROFIT RATION, IT IS TRUE THAT IN 1974 AND 1975 WHEN WAGENS ROSE SUBSTANTIALLY, PROFITS DROPPED 6.9 PERCENT AND 3.6 PERCENT RESPECTIVELY. HOWEVER, IN BOTH 1976 AND 1977 PROFITS ROSE ABOUT 15 PERCENT, OR QUITE A BIT MORE THAN WAGES, AND THIS DEVELOPMENT IS EXPECTED TO BE MAINTAINED IN 1978 WITH PROSPECTS OF EQUAL RISES IN WAGES AND PROFITS IN SUBSEQUENT YEAR. AS NOTED BY SECRETARIAT, REAL WAGES DECLINED IN 1977 AND WILL NOT RISE MUCH IN 1978, IF AT ALL. THEY THUS STAYED WELL WITHIN REGISTERED AND PROJECTED PRODUCTIVITY GAIN. IN THIS RESPECT, WE CONSIDER SECRETARIAT'S REGISTRATION OF A SHARP DECLINE IN PRODUCTIVITY SOMEWHAT EXAGGERATED. THE VERY LARGE GAINS REGISTERED IN 1972-73 AND PARTICULARLY IN 1975-76 PROBABLY REFLECTED AN ADJUSTMENT PROCESS WHICH HAS NOW BEEN COMPLETED. THE 3-4 PERCENT GAIN

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REGISTERED IN 1977 AND FORECAST FOR THE SUBSEQUENT YEARS IS MORE NORMAL AND ACTUALLY NOT MUCH BELOW THE AVERAGE REGISTRRD FOR THE 1960-70 DECADE.

7. FINALLY, WITH REGARD TO THE SECRETARIAT'S VAGUELY PHRASED RECOMM-ENDATION FOR SELECTIVE EXPANSION MEASURES WITHOUT OFFSETTING DEMAND REDUCTIONS, THIS COULD MAKE IT EASIER FOR THE GOVERNMENT TO YIELD TO EXISTING POLITICAL PRESSURES. WE WOULD FEEL VERY HESISTANT, HOWEVER, IN ENCOURAGING ANY RELAXATION OF PRESENT POLICIES UNTIL THE CHECK ON BOTH THE BALANCE OF PAYMENTS AND INFLATION HAS BEEN MORE SOLIDLY DEMONSTRATED.

8. IN REFTEL B PARA 5, PLEASE CORRECT "DOMESTIC DEMAND" TO "INTERNATIONAL DEMAND".
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9. REGRET PARTICIPATION BY EMBASSY REPRESENTATIVE IN MARCH 9 REVIEW NOT POSSIBLE.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC DEVELOPMENT
Control Number: n/a
Copy: SINGLE
Draft Date: 07 mar 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978COPENH01586
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780102-1292
Format: TEL
From: COPENHAGEN USOECD
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780399/aaaadfyi.tel
Line Count: 140
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 38d732cc-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 78 COPENHAGEN 1442, 78 COPENHAGEN 1513, 78 PARIS 7959
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3421583
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC AND DEVELOPMENT (EDRC) REVIEW OF DENMARK MARCH 9 (II)
TAGS: EGEN, DA
To: PARIS
Type: TE
vdkvgwkey: odbc://SAS/SAS.dbo.SAS_Docs/38d732cc-c288-dd11-92da-001cc4696bcc
Review Markings:
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20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014